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NABE Industry Survey

July 1988

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-June and is being reported in July 1988. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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Current Highlights

* Unit demand continues to rise, with three times as many companies experiencing gains compared with those seeing declines.

* More companies now report increases in capital spending than did in the prior industry survey.

* Export business remains on a strong expansionary track.

* Inflation pressures are mixed with a decline in the proportion reporting wage increases but an advance in those facing higher input prices.

* Neither minimum wage legislation nor a law requiring 60 days notice prior to plant closings are likely to have major effects upon costs or the way business is conducted according to NABE members.

Summary

Economists report expansion of demand, employment, and inventories at their firms. But in comparison to results found in March (and reported in April), the current conditions are less robust. Similarly, more respondents report that prices and wages are rising than indicate they are declining, but the gaps have narrowed from the last survey. The current survey, though, finds slightly more input price rises and profit margin gains. In addition, more firms are increasing capital expenditures.

Special questions about legislation that would raise the minimum wage and require notice before plants could be closed were included in this survey. Only a small proportion of the economists regard potential changes in these areas as having large impacts on their companies' business.

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Unit Demand

Demand remains relatively strong with 48.1% of economists indicating that unit demand has risen in the last three months. There are, however, some significant differences in the conditions among sectors with the trade, transportation, utilities, and communication (TTUC) and the goods-producing sectors reporting a preponderance of higher demands, while other services (banking, thrifts, nonbank financial, consulting, and other) are reporting mixed results. Here are the results from the latest survey:

	Percent Reporting that Demand is:		
Sector	Rising	Staying the Same	Falling
Total	48.1%	36.8%	15.0%
Goods-Producing	52.3	36.4	11.4
TTUC	61.3	29.0	9.7
Other Services	37.9	41.4	20.7

These findings are consistent with moderate economic growth, but they are less robust than the prior edition in which 53.6% of all respondents said demand was rising and only 13.0% said it was falling. We have plotted the percentage historically for goods-producing and TTUC together (which had been the only sectors included in the sample until just recently) and goods-producing by itself; see Charts 1 and 2. The current reading of 56.0% with rising demand for the combination is above the 53.3% average for the seven year period shown; for goods producing alone the present 52.3% who report rising demand is exactly equal to the average for the last seven years.

Capital Spending, Employment, Inventories Continue to Increase

Other signs of current business activity are generally in accord with growing demand. In particular, capital expenditures have been picking up with 40.8% of all respondents and 42.4% in the combination of goods-producing and TTUC reporting increases in the last three months; in the prior survey the percentages were 32.5% and 36.8%, respectively. See Chart 3 for the history.

Employment is increasing, but the percentages reporting both gains and losses have decreased in the latest survey; meanwhile a large fraction indicate no change:

Portion of All	Percentage Reporting that Employment is:		
Respondents in:	Rising	Staying the Same	Falling
June/July survey	21.2%	65.0%	13.9%
March/April survey	23.3	51.1	25.6

Inventories are rising in more companies (24.6%) than they are falling (17.5%). Some companies indicate the current level of inventories is too high (20.3%) and in others they are too low (15.3%), but most consider them to be about right (64.4%)

Chart 1

UNIT DEMAND*

(Percent of Economists Reporting, Quarterly)

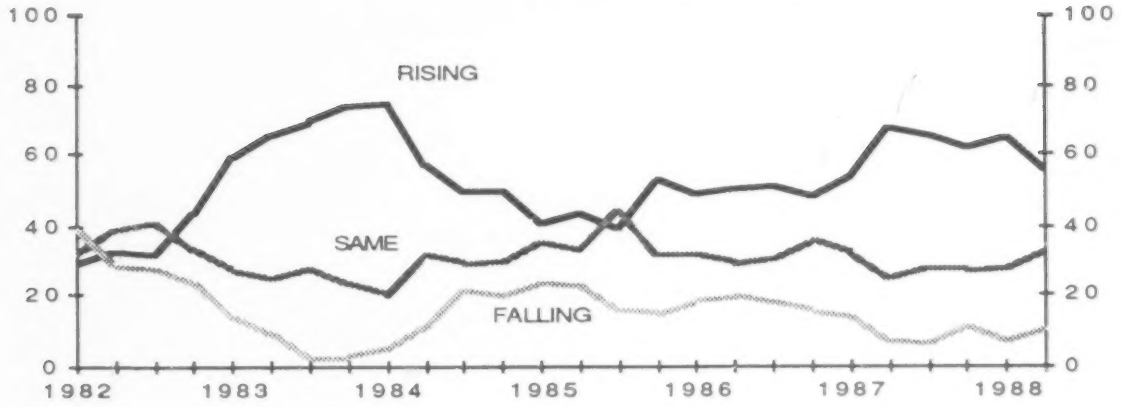


Chart 2

UNIT DEMAND--GOODS-PRODUCING

(Percent of Economists Reporting, Quarterly)

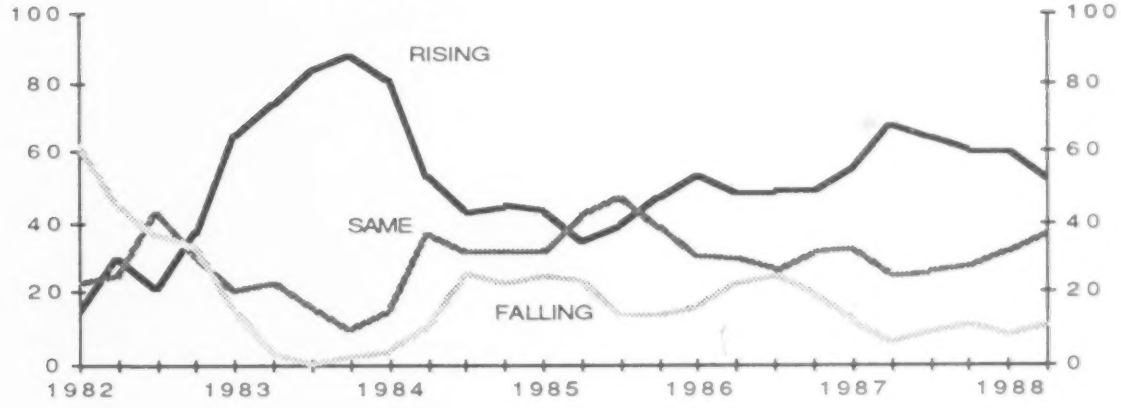
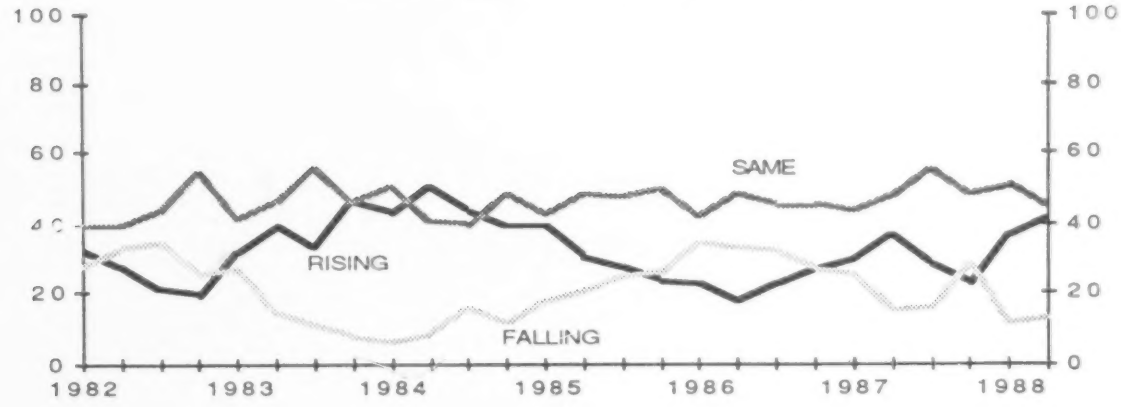


Chart 3

CAPITAL SPENDING*

(Percent of Economists Reporting, Quarterly)



*Includes Goods-Producing, Trade, Transportation, Public-Utilities, & Communication sectors.

Chart 4

EMPLOYMENT*

(Percent of Economists Reporting, Quarterly)

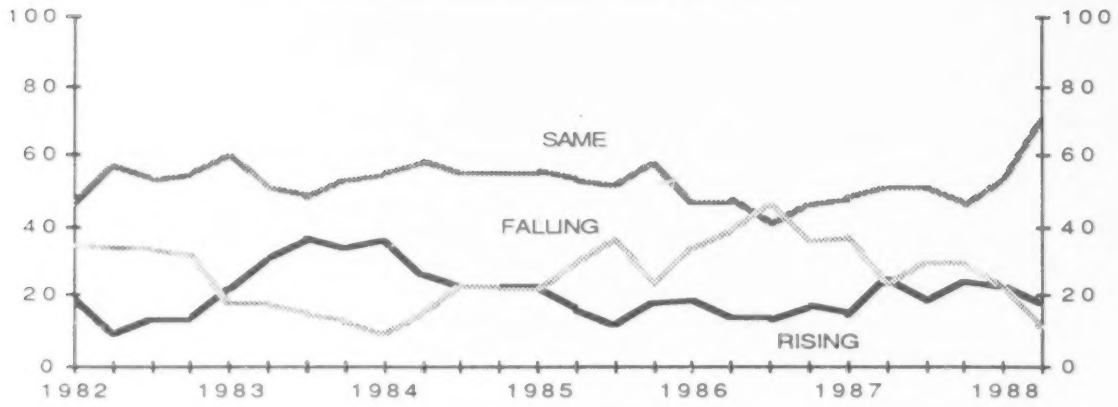


Chart 5

INVENTORIES*

(Percent of Economists Reporting, Quarterly)

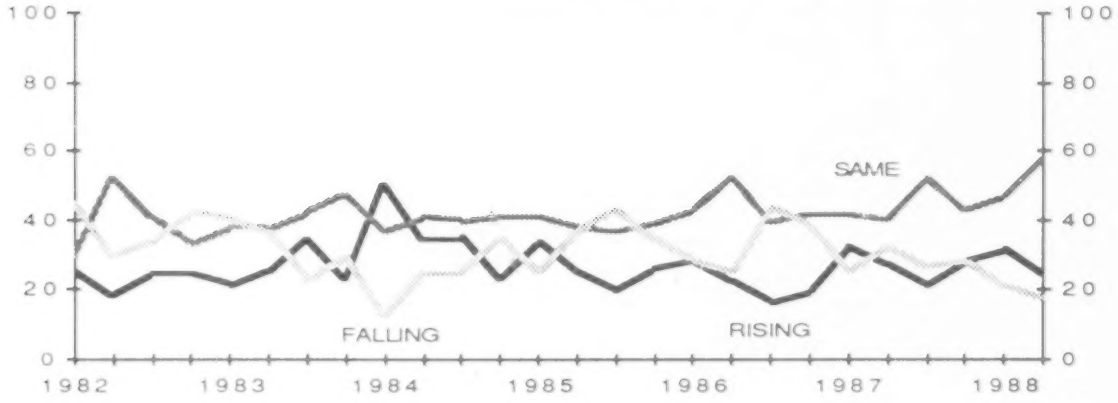
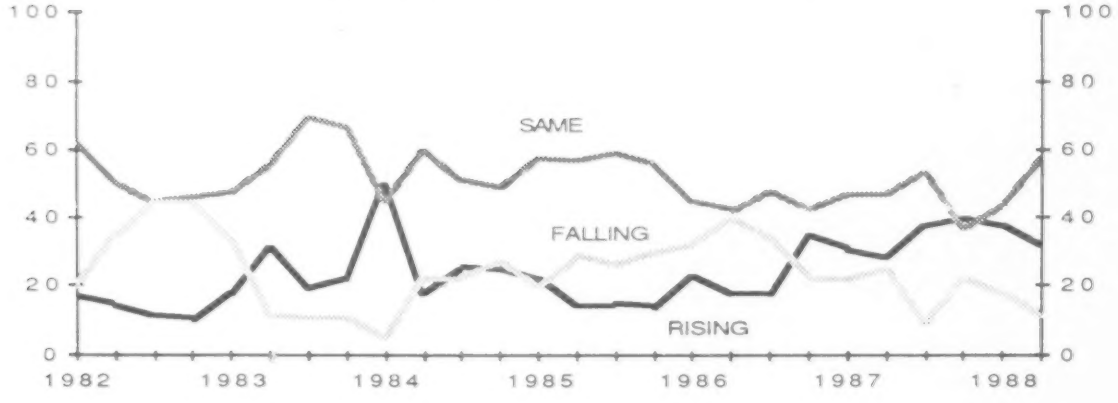


Chart 6

PRICES*

(Percent of Economists Reporting, Quarterly)



*Includes Goods-Producing, Trade, Transportation, Public-Utilities, & Communication sectors.

See Charts 4 and 5 for the current employment and inventory changes covering the goods-producing and TTUC sectors in their historical context.

Export Business

A strong contributor to unit volume gains is export business. Among those companies that export, NABE members report 68.9% have seen rising exports in the last three months, while 28.9% say overseas demand is the same and only 2.2% indicate a decline. Among those with gains, 50% have seen acceleration in the growth of export demand and none has seen deceleration, while the remainder report either a steady rate of advance or a very recent turn up. In addition to improving export business, companies have seen a host of other changes due to the lower dollar such as: greater price competitiveness in foreign markets, reduced competitive pressure from imports, increased overseas earnings, increased cost of imported materials, and greater pricing flexibility in the United States.

Prices, Costs, and Profits

The inflation signals are mixed in the current survey. Prices charged by companies in the entire sample are rising in many more cases than they are falling, but the proportion rising has eased a bit between the last two inquires, while the proportion falling has decreased more significantly:

	Percentage Reporting that Prices Charged are:		
Survey Date:	Increasing	Unchanged	Falling
June/July	31.1%	62.2%	6.7%
March/April	32.8	48.5	18.7

The portion of companies raising wages and salaries also dropped in the latest survey to 32.8%, from 40.0% previously. But while this moderating tendency was occurring, input prices have continued to advance markedly with 55.7% of respondents finding higher prices in the last three months versus 54.2% in the previous survey; moreover, among those facing higher input prices 59.6% say the pace of rise has accelerated. In addition, there are more signs of shortages or at least tight supply conditions as the following comparison suggests:

	Surveys Taken/Reported in:	
Percent Reporting Shortages of:	March/April	June/July
Skilled labor	16.2%	25.9%
Unskilled labor	9.4	11.2
Intermediate (partly processed) inputs	8.6	14.7
Raw material inputs	8.6	8.6
Capital goods	0.8	5.2
No shortages	65.8	56.0

Profit margins continue to do well with more firms reporting increases (35.3%) than decreases (24.1%) in the last three months. Charts 6-8 provide survey results for prices, wages, and profit margins in goods-producing and TTUC.

Chart 7

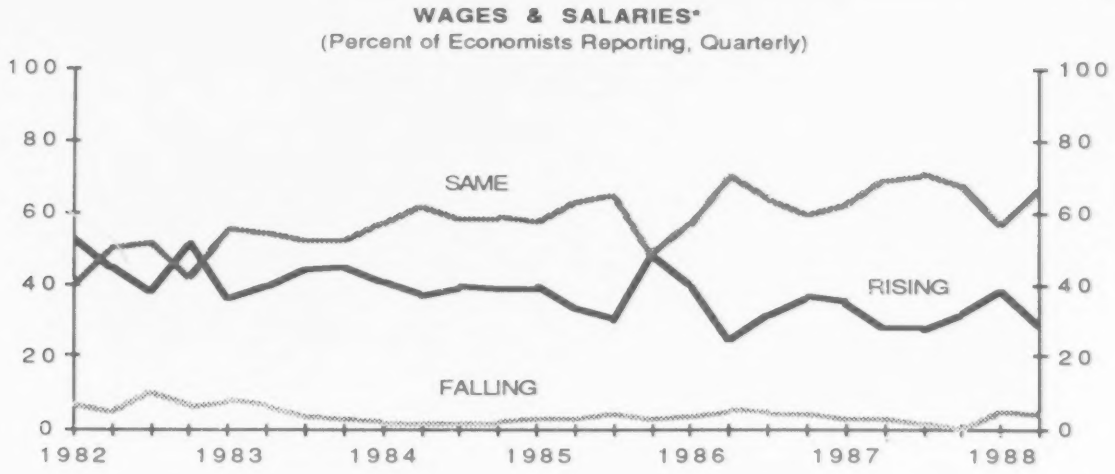
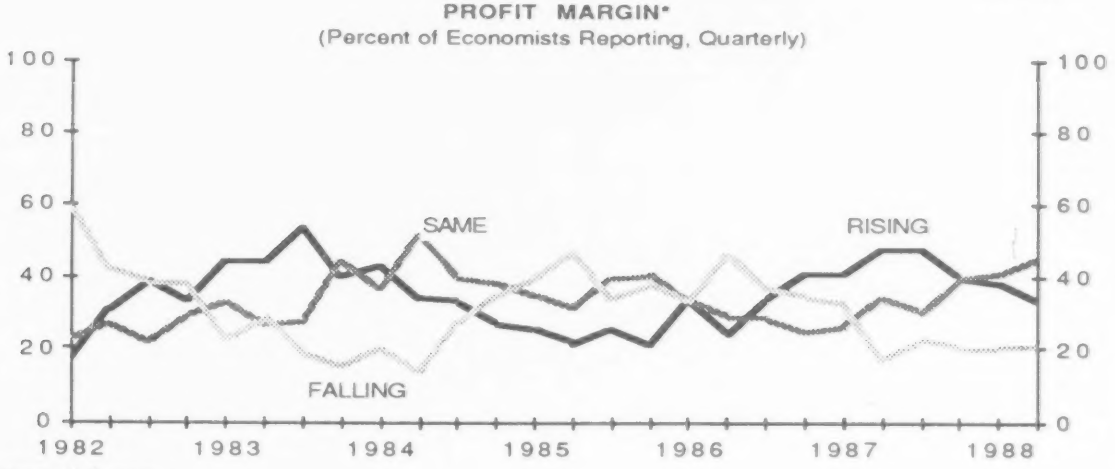


Chart 8



Special Questions

The new survey asked special questions about the potential impacts of minimum wage legislation and the tighter labor market. In general respondents thought the changes would produce minor or no effects. The results may be summarized as follows:

	Percent Expecting		
	Major Impact	Minor Impact	No Impact
Direct impact (own company) of higher minimum wage	7.4%	41.9%	50.7%
Indirect impact (via input prices) of higher minimum wage	11.2	57.9	30.8
Tighter national labor market on labor costs	7.4	55.9	36.8

Finally, we asked about the possible consequences of requiring 60 day notification for plant closings. Only 4.0% of respondents thought there would be major impacts upon cost or the way business is conducted and 79.3% thought there would be no impact either because plant closings do not occur, or voluntary notice is already provided, or the respondents work for companies small enough to be exempt.

*Includes Goods-Producing, Trade, Transportation, Public-Utilities, & Communication sectors.